

Priorities in the Lead Up to the 2008 Budget

This is a critical time for a new Government; the lead up for its first Budget. It's the time when it must establish its credibility with the population, investors - both home and overseas, and development partners.

It is particularly critical for this Government. Although the economy is superficially stronger now than for several years, it remains fragile and not yet on a secure or sustainable path, with opportunities still unduly restricted to a few industries and centres. There is also strong concern over the level of experience of the new government team and its commitment to drive needed reforms, including addressing prevalent excesses and maladministration.

There are certainly some respected and experienced hands, including the Deputy Prime Minister, Foreign and Community Development Ministers, for a start, who will contribute to wise policy and stability. But there remains wide public and investor concern, which needs to be allayed. There is anxiety that management of the public purse has slipped into less assured hands. It's widely recognised that financial restraint has not been one of the Prime Minister's strong points. In whichever portfolio he's held, relevant Ministers and public servants with financial responsibilities have been concerned over Somare's limited appreciation of public finance or its limits, and that, whether purchasing new equipment or travelling overseas with large entourages, he gives little consideration to cost.

However, since Independence successive governments have largely entrusted the Finance/Treasury and usually Planning Ministries into safe hands. This was a strong feature of the last Somare-led Government, with Philemon and Namaliu holding the financial reins, and generally (with the central bank) preventing excess and ensuring monetary and fiscal stability needed for the economy to start turning around and grow, with investment recommencing in some industries. That's not to say there wasn't abuse in different Departments, including Finance; there clearly was, as portrayed starkly in the final report from the Public Accounts Committee.

There is an apparent break this time in the tradition of appointing known safe hands to the Treasury/Finance portfolios, so it will be critical for the new Treasurer to demonstrate promptly that the nation's finances remain in safe hands. No-one doubts his ability, but whether the former beer salesman and controversial Forest Minister has the credentials and dedication to protect the wider public interest must be demonstrated. His earlier apparent reticence towards transparency in public policy and implementation triggered widespread alarm bells, so it is crucial that the Minister provides early reassurance, demonstrating prudence and openness in financial policy, expenditure planning and implementation, proving current doubters wrong.

The DPM has provided valuable calming signals to the private sector and community, nervous at hotter-headed messages from some Ministers (including over investment and competition). Over many years the Cabinet system has usually ironed out more extreme

and ill-judged measures, although also side-stepping more challenging and overdue reforms. It is commendable that recent reforms (including independence of the superannuation funds, Central Bank and ICCC) have proven resilient, enabling aspects of economic and investment decision-making to be reasonably autonomous from undue Ministerial discretion.

Actions over the next months, including through the Budget, will provide the ‘proof of the pudding’; whether this will indeed be a constructive and reformist Government, willing and able to provide both long term stability and drive firm reforms for economic and social development for wider community benefit, or a government acting merely in the interests of narrower vested interests.

What are some of the priorities for the Budget and over the next months and years? Government must focus upon providing stable and suitable conditions for long term investment and encourage competition, but not unduly tax productive activities. By and large the private sector is better able (than government) to utilise resources by reinvesting and generating growth and employment, so the State must not unduly squeeze the private sector, by overtaxing or by high public borrowing. Natural resource extraction is somewhat exceptional, as activities such as mining provide relatively limited direct employment, being justified partly to provide revenue needed for the State to perform its core functions. Hence higher rates of taxation are justified with resource extraction, whilst remaining internationally competitive, but with options for direct reinvestment in diversified sustainable activities or futures funds also favoured.

On expenditure the government must focus upon the State’s core activities, notably providing (and restoring) core public infrastructure, education and primary health services, whilst letting the private sector do what it’s best at, namely providing commercial goods and services (competitively) and generating employment. Government must make its systems work, including accountable use of 2006/7 Trust Funds and rationalising provincial/LLG allocations and expenditure. There is great potential for partnerships between the State, the private sector and civil society in the provision of some goods and services, including education and information/extension, research, health provision, culture and conservation, for example combining private investment/capacity in telecommunications or distribution with public sector technical skills and materials.

Most State functions have underperformed for years, largely owing to political interference, appointing wantoks as managers, unclear or conflicting responsibilities (e.g., between multiple tiers or institutions), corruption and poor accountability, and inadequate and inconsistent funding, particularly at the local level in many provinces. Nevertheless, the potential is there to provide good public services, if the commitment is made towards supporting capable management, restoring skills (including practical management training, notably at regional training colleges) and ensuring adequate resources and public accountability. We know that PNG public servants, though widely maligned, do perform as well as any around the world if provided suitable conditions.

On that note, the modest, but valuable scheme, developed with World Bank support, providing solar power for teachers houses across the country is valuable. Improving incentives for public servants (and the wider community) living in rural areas, and helping to retain skills where they're most needed is critical. Back in the late 1970s/early 1980s PNG had a progressive national energy policy, requiring solar water heating in government houses and low energy lighting, and developing wide ranging, particularly low-emission, energy options. PNG was ahead of its time, but since then, in energy and other fields, constructive planning to respond to growing need has been neglected, allowing events to take the lead.

We've allowed rural hydros to run down, oil power stations and multiple back-up generators to provide urban power and ignored the wide range of natural energy sources available. Costs of power supply were forced up by poor planning and fear of landowner disruption, avoiding dialogue and innovative solutions. Of course neighbouring villagers without power are frustrated by pylons and other infrastructure not benefiting them. Digicel has recently demonstrated the capacity to embrace communities. PNG Power and other service providers should do likewise, seeing villagers as opportunities rather than threat, and enabling them and schools and teachers (etc) access to basic services, such as for lighting or studies

PNG cannot afford to be extravagant (wasting resources on government planes/cars/big packages), but it can afford to focus on needs and develop a clear vision and plans for the country's future and best interests of the community. This needs partnership between the State, private sector and wider community, not the State trying to do everything and consequently achieve little or nothing (as over recent wasted years).

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